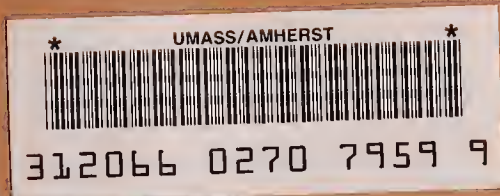


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Massachusetts Community Development Finance Corporation



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CDFC Handbook

UNIVERSITY OF MASSACHUSETTS

GOVERNMENT DOCUMENTS
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MASSACHUSETTS COMMUNITY DEVELOPMENT FINANCE CORPORATION (CDFC)

WHO WE ARE

We are a public corporation that invests money in business enterprises which collaborate with local community organizations and which carry on activities in economically depressed areas of Massachusetts. Created as an independent state agency by action of the Massachusetts legislature (M.G.L. Chapter 40F), we began operation in 1978.

Our goals are to stabilize and expand employment opportunities, strengthen local and state economies and tax bases, and increase the involvement of residents in the economic betterment of their communities. Our focus is on those areas of the Commonwealth in greatest need of economic revitalization.

We are a unique financial resource available to certain local community organizations who are concerned about having a direct, positive impact on their economic future and to certain business entrepreneurs in need of capital who share the goals of our program. We require the sponsorship of a business venture by a community organization and the assurance of an ongoing relationship between the community organization and the business before making our investment.

WHAT WE DO

We offer venture capital for new and existing business enterprises which involve three-way partnerships among ourselves, the business entrepreneurs and local community development corporations (CDC's). We select investment opportunities based upon thorough reviews of well-prepared business plans and community impact evaluations which are submitted by business entrepreneurs in conjunction with CDC's. We are available to assist in the preparation of business plans for CDC-owned ventures.

Our money is made available to assist businesses which have been approved by CDC's and us. The CDC's are required to maintain some degree of control over the businesses and responsibility for the investments to ensure that our public purposes continue to be met. We invest our money as debt (interest bearing loans with negotiable rates and terms) or equity (the purchase of common or preferred stock) or a combination of the two. We can also use our money to guaranty the investments of others. We make every effort to secure the participation of other private and public funds with our investments in order to stretch our limited resources.

WHO IS ELIGIBLE

Before we make an investment, we must determine the eligibility of the CDC as an organization which is representative of its community and has an ongoing relationship with the business. We must also find that the CDC's area is a location in need of our investment. We then must determine the prospect of the business to operate as a viable, ongoing enterprise. While we don't have many written regulations detailing our priorities, we are forced to be very selective in the number and type of businesses that receive our money. Each business must meet some general guidelines we have established and must be within a target area served by a CDC. In the case where a business applies to us but no CDC exists, we assist residents and local community organizations in creating a CDC or refer the business to other areas with CDC's.

WHERE WE GET OUR MONEY

To begin operation, we were capitalized with \$10 million from the Treasurer of the Commonwealth in payment for all of our corporate stock. This makes us a public corporation in which all citizens of the Commonwealth are, in effect, stockholders. The interest earned on this \$10 million before we make business investments pays our rent and the costs of our doing business. We operate at no additional cost to the Commonwealth.

WHO RUNS US

We are run by a nine-member board of directors whose varied backgrounds reflect the broad goals of our program. Six Directors were appointed by the Governor for staggered five-year terms: two individuals experienced in investment finance, three members of CDC's who reside in target areas, and one representative of organized labor. The other three Directors are members of the executive branch of the Commonwealth. The Directors hire a President who is our chief administrative and operational officer and he employs a professional staff to help operate the program. A vote of the Directors is required before making any investment.

HOW TO APPLY

We welcome all inquiries from business entrepreneurs and CDC's. We look for an initial written statement of objectives from the business principals (or the CDC leadership in the case of a CDC-owned venture) to determine whether the business concept has merit. We also require material from the CDC to determine whether the organization meets our requirements.

Based on the outcome of this initial screening, we may invite the submission of a full proposal which contains two parts: a business plan and a community impact evaluation. Those proposals approved by our Directors receive a financial commitment conditioned upon the execution of all required documentation. Once this is completed, the closing takes place and the investment is funded.

The application process can be outlined as follows:

CDC/Business

CDFC

- | | |
|--------------------------------------|---|
| 1. Submit statement of objectives | |
| | 2. Conduct initial interview |
| | 3. Invite proposal |
| 4. Prepare proposal | |
| a) Business plan | |
| b) Community impact evaluation | |
| | 5. Evaluate and modify proposal |
| | 6. Issue conditional commitment
(CDFC Directors) |
| 7. Meet conditions of the commitment | |
| | 8. Supervise preparation of
closing documents |
| 9. Execute closing documents | |
| | 10. Fund investment |

AN ELIGIBLE BUSINESS

Policy: We are required by law to invest our funds only in businesses which have a "reasonable expectation" of being "successful". We do not, however necessarily apply the kind of "return on investment" analysis used by private investment institutions. In selecting proposals, we favor those businesses which display the greatest promise of meeting our public goals.

1. Our investment must increase or maintain threatened full-time employment paying at least 150% of the minimum prevailing wage ($\$2.65 \times 1.5 = \$4.00/\text{hr.}$) and offering adequate fringe benefits including health insurance.
2. The increased employment and improved standard of living must primarily benefit residents of the CDC target area in which the business is located.
3. We must be able to find that the business could not be successful without our involvement due to the unavailability or high interest rates of capital from traditional sources.
4. We impose various requirements on the business principals and/or management to ensure the viability of our investment. We may, among other things, require that the business be their main source of income, that they have experience directly relevant to the type of business proposed, that they have acceptable credit at the time of application, and that they be the majority owners of the business and reveal all minority ownership positions. We may also impose financial and legal requirements such as, personal guarantees, "key man" life insurance, and audited financial statements.

AN ELIGIBLE COMMUNITY DEVELOPMENT CORPORATION (CDC)

Policy: A CDC shall be a legally constituted organization that can be shown to represent the best interests and aspirations of its area residents.

1. A CDC must be structured and must have adopted by-laws to meet the following requirements:
 - a) It must be a nonprofit corporation established under Massachusetts General Laws (particularly Chapter 180).
 - b) Its membership must be open to all area residents 18 years and older with each member having an equal vote. Financial contributions, (membership dues) to the CDC are allowable requirements for voting if nominal in amount -- perhaps \$5 or less.
 - c) A majority of board members must be elected by area residents.
 - d) Elections must be held annually for at least a third of elected board members so that elected members serve for terms of no more than three years.
 - e) Any board member who is not elected must be appointed by elected state or local government officials or by other nonprofit organizations involved in the promotion of development in the area.
 - f) Elections must be adequately publicized within the area and an ample opportunity provided for full participation.
2. A CDC must operate within a geographic area containing no more than 115,000 people. The area must be consistent with some existing (or combination of existing) political district, ie. city or town, congressional district, ward, precinct.
3. A CDC must contain a target area in which the business will be located which meets one of the following requirements:
 - a) A blighted open, decadent or substandard area with a median income below 85% of that for the Boston metropolitan area, or
 - b) An area containing substantial conditions of blight, economic depression and widespread reliance on public assistance as determined by the CDC in conjunction with us.
4. The CDC's target area must be:
 - a) The same geographic area as the CDC area, or
 - b) Contained within the boundaries of the CDC area, or
 - c) A predominantly nonresidential area outside but contiguous to the CDC area.

In cases where a target area is contained within a larger CDC area, we must be assured that the CDC fairly represents the interests of the target area residents. (In the usual case, this requires that the population of the CDC area be no more than 15% larger than that of the target area.) In cases where a target area lies outside the CDC area, we must be assured that the primary community benefits of the business will go to CDC area residents.

5. In addition to technical compliance with our enabling legislation, we consider other factors such as the history, representative quality, and viability of a CDC in determining its eligibility.

THE BUSINESS-CDC PARTNERSHIP

Policy: A CDC must maintain sufficient control over a business to ensure that public benefit and public purposes are maintained. Sufficient control must be expressed in any one of the following ways:

1. The business is a wholly-owned subsidiary of the CDC; or
2. The CDC owns a majority of the capital or voting stock of the business; or
3. The business is undertaken by a nonprofit corporation, a limited-dividend corporation, or a local development corporation and in each case the investment agreements between the CDC, the business and CDCFC contain sufficient provisions to assure that public benefit and public purposes are maintained; or
4. In all other cases, including privately-owned businesses, a contractual agreement is reached in which the CDC must approve all major transactions of the business (sale, merger, dissolution, issuances of substantial amounts of stock, or reorganization).

SUGGESTED OUTLINE OF A BUSINESS PLAN

COVER SHEET: Name, address and phone number of business, business principals, and CDC

STATEMENT OF PURPOSE

TABLE OF CONTENTS

I. THE BUSINESS

- a) Description of business and product
- b) Market and competition
- c) General industry data
- d) Location of business
- e) Management
- f) Personnel
- g) Plant and equipment
- h) Application and expected effect of equity and/or loan

II. FINANCIAL DATA

- a) Sources and applications of funding
- b) Capital equipment list
- c) Balance sheet
- d) Breakeven analysis
- e) Income projections (profit and loss statements) and balance sheets
 - 1) 3-year summary
 - 2) Detail by month for first year
 - 3) Detail by quarter for second and third years
 - 4) Notes of explanation
- f) Pro-forma cash flow
 - 1) Detail by month for first year
 - 2) Detail by quarter for second and third years
 - 3) Notes of explanation
- g) Historical financial reports for existing business
 - 1) Balance sheets for past 3 years
 - 2) Income statements for past 3 years
 - 3) Tax returns

III. SUPPORTING DOCUMENTS: personal resumes, job descriptions, personal financial statements, credit reports, letters of reference, letters of intent, copies of leases, contracts, legal documents, and anything else of relevance to the plan.

Derived from Business Planning Guide, The Business Assistance Monograph Series, The Federal Reserve Bank of Boston, 1976.

SUGGESTED OUTLINE OF A COMMUNITY IMPACT EVALUATION

1. Proposed relationship between the CDC and the business

*Descriptive history
Role of business within the community
Stock ownership
Membership on board of directors
Involvement in management decisions*

2. Employment

*Numbers of persons and pay levels
Numbers who will be employed from within CDC area and
mechanism for achieving this objective
Participation in CETA, job training and job upgrading
programs
Special affirmative action programs
Job advancement and management opportunities
Assessment of work environment and hazards*

3. Taxes and public revenues

*Real estate taxes
Corporate excise taxes
State payroll taxes withheld
Sales taxes
Unemployment benefits avoided*

4. Economic linkages

*Major suppliers within target area and within Massachusetts
Major related business activities and potential of new
activities within target area and within Massachusetts*

SOURCES OF OTHER PRIVATE AND PUBLIC PARTICIPATION

Private:

1. *Commercial banks, savings banks, savings and loan institutions, cooperative banks*
2. *Foundations*
3. *Credit unions*
4. *Venture capital companies*
5. *Insurance companies*
6. *Individual investors*
7. *Investment from the business principals*
8. *Other*

Public:

1. *Small Business Administration*
2. *Economic Development Administration*
3. *Community Services Administration*
4. *Farmers Home Administration*
5. *Massachusetts Industrial Mortgage Insurance Agency insurance*
6. *Community development block grant funds*
7. *Municipal funds and appropriations*
8. *Other*

See: "Funding and Assistance Sources for Massachusetts Community Economic Development Organizations", Department of Community Affairs, September, 1977.

CDFC STAFF AND DIRECTORS

A. STAFF

- 1. Matthew H. Hobbs
President*
- 2. William A. Bagby
Senior Investment Officer*
- 3. Osla de Figueiredo
Executive Secretary*

B. DIRECTORS

Two individuals experienced in investment finance

- 1. S. Donald Gonson, Chairman of CDFC
Hale and Dorr, Attorneys at Law*
- 2. Robert F. Goldhammer
Vice President, Kidder Peabody and Company, Inc.*

Three members of the Governor's cabinet

- 3. Secretary of Communities and Development
William G. Flynn
(David H. Entin, designee)*
- 4. Secretary of the Executive Office of Economic Affairs
Howard N. Smith*
- 5. Secretary of Administration and Finance
John R. Buckley
(Marie O. Jackson, designee)*

Three members of target areas and CDC's

- 6. Richard P. Courchesne
President, Olde Holyoke Development Corporation*
- 7. Michael J. Micciche
Director of Housing, Community Teamwork, Inc. (Lowell)*
- 8. George J. Morrison
Executive Director, Roxbury Action Program*

Representative of Organized Labor

- 9. George W. Ripley
Secretary-Treasurer, New Bedford, Cape Cod Labor Council*

